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December 10, 2012

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service
Docket No. I-2011-2237952

Dear Secretary Chiavetta:

In accordance with the *Tentative Order* entered in this matter on November 8, 2012, enclosed for filing please find the Comments of Washington Gas Energy Services, Inc. on the End State of Default Service. These Comments were filed electronically through the Pennsylvania Public Utility Commission's e-File system today.

If you have any questions, please do not hesitate to contact me. Thank you.

Best Regards,

STEVENS & LEE


Michael A. Grunt

Encl.

cc: Kirk House
Megan Good

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania’s	:	Docket No. I-2011-2237952
Retail Electricity Market:	:	
End-State of Default Service	:	
	:	

**COMMENTS OF
WASHINGTON GAS ENERGY SERVICES, INC.**

Washington Gas Energy Services (“WGES”) hereby submits these Comments in response to the November 8th, 2012, Tentative Order in the above-captioned Docket, which seeks comments on the proposed End State for Default Service in the Commonwealth of Pennsylvania.

A. Default Service Product

As WGES previously stated in its filings in this docket, WGES believes that the ideal end state is one in which the default service role in each electric distribution company’s (“EDC”) service territory is filled by an electric generation supplier (“EGS”). While the Commission has recommended retaining EDCs in the Default Supplier role for now, WGES agrees with the Commission’s recommendation to retain the authority to revisit the concept of placing an EGS in the DSP role at some point in the future if circumstances warrant such a change.

B. Default Service Product

WGES wholeheartedly agrees with the Commission’s recognition that if EDCs are to remain in the DSP role, then the EDCs’ Price to Compare (“PTC”) must become more market-based. A major factor encouraging the entry of competitive suppliers into new markets, particularly residential and small commercial markets, is the structure of the utilities’ default services. WGES has repeatedly stated that the fundamental principle that should be employed in

default service is the principle that the PTC should reflect prevailing market prices to businesses and consumers.

Utilities should be able to recover their supply and associated costs in a timely manner without distorting the market price signal. As supply markets have been in a downward or flat trajectory since the recession of 2008 started, the blended default service prices have provided suppliers with a window of opportunity to make competitive offers to customers. However, if the market trajectory or trend reverses, the default service market design could become a barrier to competition as the blended default service prices will reflect past lower prices while market prices are rising. Not only will this development send the wrong market signal to customers, but retail suppliers will be forced to leave the market as no competitive supplier can compete with a regulated default service that has an open market position backstopped by regulated cost recovery. This problem can be resolved by eliminating long-term contracts from default service supply, as the Commission has recommended in the Tentative Order. Default service rates should reflect current market conditions, and as the Commission correctly explains in the Tentative Order, long-term power supply contracts distort current market conditions.

C. Supplier Consolidated Billing

As WGES stated in its earlier submission, EGSs should be permitted to perform the consolidated billing function (i.e., issue bills to customers for all electricity components, including distribution). Unbundling the billing function from distribution service will create the greatest customer connection with the EGS and will break the customer's inherent bias towards remaining with the EDC. In addition, unbundling the billing function will allow the

identification of costs allocated to that function and perhaps provide incentives for EGSs to offer competitive billing as an option to customers.

D. Accelerated Switching

While shortening the confirmation period from 10 days to 5 days is an improvement to the switching process, WGES strongly supports the Commission's investigation of other methods to accelerate customer switching. The use of mid-cycle meter reads will be an important next step in the process for improving and accelerating customer switching. WGES acknowledges that a full rollout of mid-cycle meter reads will require modifications to meter and billing systems and eventual smart meter deployment. Although full deployment of smart meters is not yet in place in Pennsylvania and will not be so for some time, WGES believes that this issue should be addressed in the upcoming rulemaking so that the updated regulations can be in place by the time that smart meters are fully deployed.

E. Provision of Meters and EE&C Programs

WGES agrees with the Commission's recommendation that EDCs remain responsible for customer metering and for Energy Efficiency and Conservation Programs under Act 129.

F. Annual Licensing Fee for EGSs

Of the alternatives presented by the Commission for an annual EGS licensing fee, the alternative involving a percentage of Pennsylvania revenue with a cap is the fairest. But if an annual fee is implemented, the Commission should also consider a minimum fee component as well. Because every EGS has annual reporting and bonding requirements, every EGS will generate costs for the Commission, in terms of staff time and resources for the review of these filings. As such, if an annual fee is implemented, every licensed EGS should be required to pay a minimum fee to cover the Commission staff time and resources devoted to such filings.

Whichever alternative is chosen for calculating the annual EGS licensing fee, the aggregate amount of the fee collected should be correlated to the actual costs incurred by the PUC for EGS-related activities. The fee should not be used as a revenue source from EGSs that is used to fund non-EGS related activities.

CONCLUSION

WGES thanks the Commission for the opportunity to present these comments and would be pleased to address any questions the Commission may have.

Respectfully Submitted,

Harry A. Warren, Jr.
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